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Date Impossible to Determine

ECONOMIC INTELLIGENCE WEEKLY

10 February 1975

25X1A

Overview

The OECD Has Sharply Lowered Its Estimates for Real GNP Growth in 1975 in the major developed countries -- Canada, France, Italy, Japan, the United Kingdom, the United States, and West Germany. For the seven countries as a group, the Secretariat projects a 1.5% decline in output, compared with the 0.25% increase forecast just two months ago. Revisions were sharpest for

- US GNP, now projected to drop 4.5% instead of 2%;
- Canadian GNP, to increase only 1% instead of 3.5%; and
- West German GNP, up only 0.8% instead of 2.5%.

The gloomier OECD forecast reflects the sharp economic deterioration in the last few months of 1974, which is spilling over into 1975. A moderate recovery is projected for the second half of this year, following three consecutive half years of declining output.

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Note: Comments and queries regarding the *Economic Intelligence Weekly* are welcomed. They may be directed to [redacted] the Office of Economic Research, Code 143, Extension 7892.

OECD foresees overall economic growth in the major countries, excluding the United States, of 1.5% in 1975. We believe that the Secretariat is overly optimistic about the strength of the recovery in the second half and that growth for the year will be more like 1%.

Major Foreign Countries Remain Reluctant To Initiate Stimulative Measures despite poor economic prospects. [redacted] 25X6

25X6

On the Price Front, worsening economic conditions have nearly halted wholesale price inflation in most industrial economies. [redacted] 25X6
25X6 The inflation of consumer prices remains intense -- averaging 12% in the major economies, well above the long-term rate. Furthermore, generous wage settlements continue to be layered into the industrial cost structure. [redacted] 25X6
25X6 (Confidential No Foreign Dissem)

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[redacted]

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OPEC EQUITY INVESTMENT OFF TO SLOW START

Investment in equities by OPEC states in 1974 was small – only about $1.4 billion, or 2% of the investable surplus of around $60 billion. Kuwait, Saudi Arabia, and Iran accounted for most of the purchases, one-half of which consisted of US common stocks. The governments of OPEC countries, influenced by their Western banking advisers, have been reluctant to invest heavily in shaky equity markets.

Purchases in 1974

Kuwait, the most sophisticated investor in the Middle East, bought nearly $1 billion in equities last year. The Kuwaitis have used their own financial institutions as well as major international banks to make the investments. The Kuwait Ministry of Finance has acquired stock in the Dresdner Bank, its principal investment outlet in West Germany. This bank arranged the purchase of 14.6% of Daimler-Benz for $396 million. Kuwait has also bought at least $300 million worth of US equities, the bulk of which are held in a New York investment account. Similar accounts in West Germany and Switzerland of $200 million probably consist mainly of equities.

The Saudi Arabian Monetary Agency, responsible for handling the new flood of money, has been slow to commit funds to equity investment. With advice of American banks, the Saudis have purchased at least $325 million in equities, all blue-chip US stocks.

Iran has made only one major equity investment -- the purchase of 25% of Krupp Steel for $100 million.

Outlook for 1975

OPEC countries are preparing to invest more heavily in equities by building up their investment institutions and by seeking more guidance from Western banks. Equity purchases, while likely to increase in 1975, will remain a small portion of OPEC investment.

Saudi Arabia not only is setting up an investment advisory board of American and European financial experts but also is planning to establish government financial representatives in London and possibly New York. The Saudis plan to put $500 million to $1 billion, or 2% to 4% of surplus revenues, in US equities. Kuwait probably will also increase its equity purchases, which accounted for about 15% of its new investment last year. Saudi Arabia, Kuwait, and other oil producers are showing increasing interest in buying into foreign financial institutions, presumably to be used as additional channels for equity investment.

Iran has set up an Organization for Investment and Economic and Technical Assistance to oversee foreign investment. Purchases of equities will favor companies that can complement Iranian development programs. Venezuela and Qatar have recently turned to Swiss and US banks for investment advice.

OPEC nations will be purchasing equities mainly to diversify their total financial holdings rather than to gain control of firms. Most acquisitions probably will be limited to no more than 5% of a company's shares. Because of unfavorable reaction to the Daimler-Benz transaction, OPEC states are likely to seek government approval before buying substantial interests in other firms. (Secret No Foreign Dissem)■

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SAUDI ARABIA: SORTING OUT DEVELOPMENT PRIORITIES

Looking to the distant future when oil revenues will tail off, Saudi officials have promoted a melange of costly programs for the construction of capital-intensive projects in oil-based industries. Emphasis now must be placed on judgments concerning development priorities rather than on the proliferation of more spending schemes.

Throughout 1975, Saudi officials will be struggling to launch their $60 billion five-year economic plan. Although a $12.6 billion program for hydrocarbon-based industry was recently announced by the Saudi state corporation Petromin, final drafting of the state plan remains incomplete, with guidelines for initiation, coordination, and implementation still undecided.

King Faysal is beset by internal maneuvering for control of the administration of development programs. A major unresolved conflict exists between Central Planning Chief Hisham Nazir and his supporters, who advocate central control of all project funding and implementation, and Oil Minister Yamani, who wants to retain control over hydrocarbon-related industry.

25X6 [redacted]

Government failure to deploy a development plan has not deterred foreign entrepreneurs from seeking Saudi business. Despite Saudi preference for dealing with Americans – who can provide markets for exports arising from diversification – businessmen from other foreign countries are very much on the scene. [redacted]

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[redacted]

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EC: FIVE-YEAR COOPERATION ACCORD WITH 46 LDCs

The European Community has negotiated a comprehensive five-year cooperation agreement with 46 African, Caribbean, and Pacific countries.[1] The document is expected to be signed in Lome, Togo, on 28 February.

The agreement has been hailed as a model for the West's relations with the developing world and as a turning point in relations between rich and poor nations. Although such tributes are somewhat overdone, the provision that aims at giving the developing countries a stable income from their commodity exports may prove significant.

Under the agreement, the 46 countries receive free entry to the EC for all their industrial products and 96% of their agricultural exports. These preferences, together with financial aid, were the main ingredient of the earlier EC association arrangements with 22 African states, but the new agreement adds new dimensions – the export stabilization plan and a protocol on industrial cooperation. It also brings in 18 commonwealth states and 6 African states that were never colonies of EC countries. The 46 countries account for 2% of world exports and 2.5% of EC imports.

1. The 46 countries are:

Bahamas
Barbados
Botswana
Burundi
Cameroon
Central African Republic
Chad
Congo
Dahomey
Equatorial Guinea
Ethiopia
Fiji
Gabon
Gambia
Ghana
Grenada
Guinea
Guinea Bissau
Guyana
Ivory Coast
Jamaica
Kenya
Lesotho
Liberia
Malagasy Republic
Malawi
Mali
Mauritania
Mauritius
Niger
Nigeria
Rwanda
Senegal
Sierra Leone
Somalia
Sudan
Swaziland
Tanzania
Togo
Tonga
Trinidad-Tobago
Uganda
Upper Volta
Western Samoa
Zaire
Zambia

Export Stabilization Program

The export stabilization plan grew out of a desire on the part of the developing countries for a stable income from their exports of raw materials. The first such arrangement between developed and developing states, it stipulates that the EC will provide grants or loans, mainly of a concessionary nature, to signatories whose earnings from exports to the Community of 11 agricultural commodities and of iron ore fall below a minimum reference level.

To trigger a payment, the product must account for at least 7.5% of the country's exports and the decline in export earnings from that product must be at least 7.5%. (In both cases, the percentages are 2.5% for the least developed countries of the 46.) These financial transfers will equal the drop in export earnings. The EC has set aside some $465 million to finance the scheme over the five-year duration of the agreement.

The final list of products consists of peanuts, cocoa, coffee, cotton, copra, palm oil, hides and skins, wood products, bananas, tea, raw sisal, and one mineral, iron ore. Iron ore was a last minute concession by the EC, which specified that its inclusion should not constitute a precedent for other minerals. Some EC countries had originally sought to tie the export stabilization scheme to a provision guaranteeing EC access to certain raw materials. This proposal was eventually dropped, however, and no supply commitments other than a special arrangement for sugar were included in the final agreement.

Trade Preferences

The EC also agreed to relax its rules on how much processing an export product of a developing country must undergo before it qualifies for duty-free entry into the EC. Developing countries had complained that the old rules harmed their budding export-oriented industries and made regional arrangements among the poorer states difficult. In the negotiations, the EC moved carefully because there is a chance that more liberal rules could provide a backdoor entry for cheap manufactures from developed countries [redacted] 25X6

The Community was tougher on agricultural than on industrial issues. The agreement allows 96% of the farm products of the 46 to enter the EC free of duty, but the EC declined to grant free and unlimited access for farm products that seriously compete with products grown in the EC. On the remaining 4%, the EC will grant only preferential access; free entry would violate the EC common agricultural program.

Sugar Agreement

The sugar producing countries accepted a guaranteed price tied to internal EC prices for shipments of up to 1.4 million tons per year. [redacted] 25X6

25X6 [redacted]

Reverse Preferences

Reverse preferences -- preferential access for EC exports to the developing country markets -- was a highly charged issue in the negotiations. Against strong French objections, the 46 succeeded in eliminating all reciprocal obligations from the new agreement. It is now up to each developing country to grant reverse preferences if it wishes. Only Senegal, the Ivory Coast, and possibly one or two others are apt to do so.

Development Assistance

The EC agreed to provide about $4 billion in development assistance through the European Development Fund. The flow of funds will be spread over four years, not five as originally planned. The 46 persisted until the last minute in their demand for an $8 billion development fund; the Nine, led by West Germany and Italy, would go no higher than $3 billion. The new agreement gives the developing countries a much more active role than before in determining the scope of EC aid and the uses to which it will be put.

The New Relationship

Led by Senegal and Nigeria, the 46 demonstrated remarkable solidarity throughout the recent negotiations, given the complexity of the economic issues and the political and cultural diversity among them. This solidarity accounts, in great part, for the concessions won. The EC hopes to gain in return a considerable measure of goodwill, a valuable asset in a world concerned with access to raw materials and export markets.

The 46, in fact, rejected the "association" label as implying less than full autonomy for them. Reflecting this sensitivity, the participants to the agreement will meet regularly at the ministerial and the ambassadorial level. In addition, they will establish a consultative assembly composed of members of the European Parliament and representatives appointed by the developing states. These institutions promise to provide a regular channel of communication between the EC and the developing states just as other channels between the developed and developing worlds are becoming clogged with acrimony. (Confidential No Foreign Dissem)

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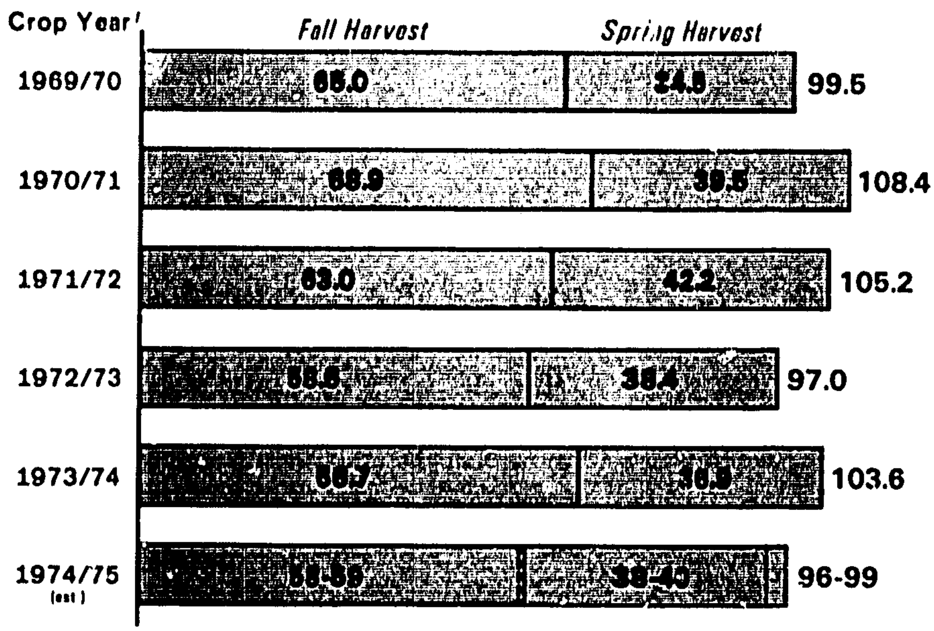
INDIA: GRAIN TIGHTROPE

India can look forward to a medium-size spring harvest and to increasing imports of grain over the next several months. Given the inexorable rise in population, the low state of grain stocks, and the muddled arrangements for grain distribution, India will continue to have an uneasy balance between supplies and minimum needs.

Indian Grain Production
Million tons



1. July through June

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Production and Prices

The US Embassy forecasts the upcoming spring grain harvest at 38-40 million tons, compared with 36.9 million tons last spring and the record 42.2 million tons of 1972. Grain production for the crop year ending in June is estimated at

96-99 million tons, marking the fourth successive year India has failed to match the peak year of 1970/71. Indian government estimates for 1974/75 are running several million tons higher than ours, reflecting the optimistic bias characteristic for this time of year.

Wholesale grain prices, which were 51% higher in September than a year earlier, declined 7% in the last quarter of 1974 with the onset of the fall harvest and remained stable in January. Purchases of foreign grain and stringent anti-inflationary measures since midsummer contributed to this easing in prices.

Imports

New Delhi has arranged for about 4 million tons of grain imports in the first half of 1975, pushing 1974/75 imports to about 7 million tons. This total includes commercial purchases of 4 million tons of US wheat. (India has replaced China as our largest customer.) Another 2-4 million tons will probably be sought for delivery next summer and fall, depending on the amount procured from the spring harvest and the performance of the summer monsoon. To accommodate rapidly growing grain deliveries, New Delhi is expanding use of its smaller ports and importing additional grain unloading equipment. (Unclassified)■

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GREECE MOVES SLOWLY TOWARD REFLATION

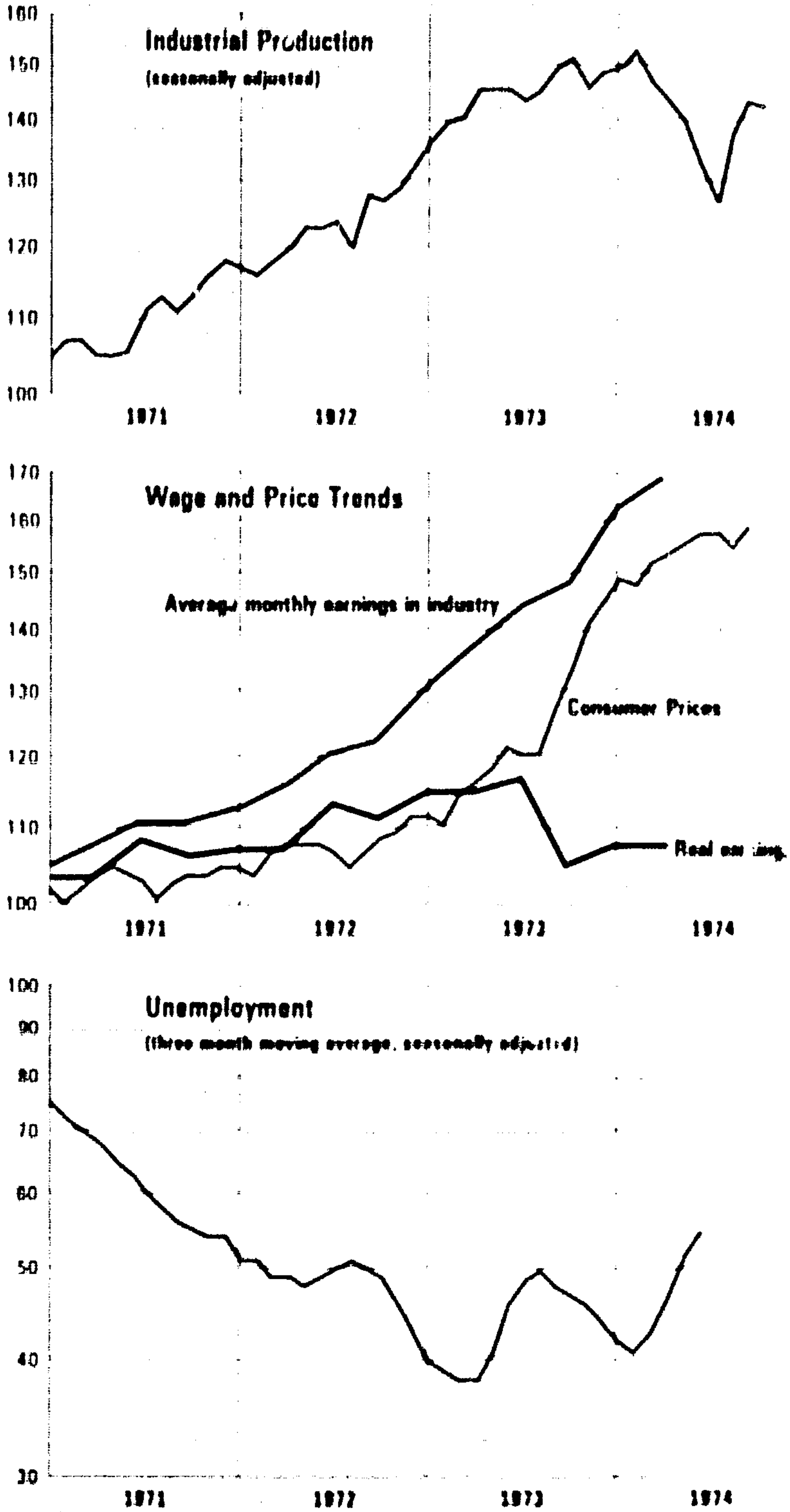
The government of Constantine Karamanlis, installed last July and confirmed in office by the November election, is cautiously trying to get the economy moving again. The military government in its last year had slowed inflation and contained the trade deficit at the cost of declining output. Economic activity has picked up under the new regime; further progress seems likely in 1975.

Reviving Growth

Both industrial production and GNP declined in 1974 by about 2%, after six consecutive years of rapid growth. Although still hamstrung by inflation and trade problems, the economy has begun to recover since midyear. By October, industrial production had recouped two-thirds of the 17% drop from the February peak.

GREECE: ECONOMIC INDICATORS

Index: 1970 annual average = 100



Tight fiscal and monetary policies adopted in late 1973 started the slowdown; mobilization for the Cyprus crisis in July 1974 carried it to its nadir. The economy was further depressed last year by a $380 million jump in net oil imports, to $720 million. Tourism -- a major industry -- was hit hard by the worldwide economic slowdown and a spurt of anti-Americanism following Turkey's invasion of Cyprus.

The Karamanlis government has continued the moderately expansionary line initiated by the military government just before its ouster. It quickly abolished a special tax on construction and has now eased credit restraints. The 1975 budget calls for spending to rise by one-third, an increase that almost certainly will exceed the rise in tax collections. To spur consumption, the government is providing tax concessions to low-income groups.

Fear of rekindling inflation will act as a brake on government stimulative efforts. The austerity program lowered the annual rate of increase to 18.6% during January-June 1974, compared with the [illegible]% average of 1973. Although inflation continued to slow in the third quarter of 1974, strong expansionary measures could send prices soaring again.

GNP should post a small gain in 1975, perhaps exceeding the 1973 level by a percentage point. Recent announcements of major investment projects suggest that the new regime has won the confidence of domestic and foreign businessmen. Unemployment nevertheless is likely to worsen because of a reflux of emigrant workers from recession-plagued Western Europe.

Balance-of-Payments Constraints

Balance-of-payments problems will keep Athens from moving vigorously to spur growth. The trade deficit amounted to $2.5 billion in 1974 -- about the same as in 1973 -- even though import volume fell, export volume rose substantially, and export prices increased nearly as much as import prices. This somber arithmetic reflects the fact that export earnings in 1973 were only a third as large as import expenditures.

Financing problems would have been more severe if an increase in receipts from transport services had not offset the decline in tourist earnings and workers' remittances. An increase in receipts of long-term capital -- mostly loans from Bonn, the IMF oil facility, and a consortium of private banks -- merely compensated for the drying up of short-term capital inflows. Athens consequently had to draw down foreign reserves by $155 million.

Greece: Balance of Payments

Million US $

	1972	1973	1974 (Estimated)
Exports	836	1,230	1,750
Imports, f.o.b.	-2,197	-3,642	-4,230
Trade balance	*-1,361*	*-2,412*	*-2,480*
Tourism	297	402	265
Transportation	358	474	820
Remittances	572	732	575
Other invisibles	-270	-384	-420
Current account balance	*-404*	*-1,168*	*-1,240*
Long-term capital	477	688	1,085
Basic balance	*73*	*-500*	*-155*
Other capital	263	405	Negl.
Payments balance	*336*	*-95*	*-155*

To improve the trade balance in 1975, the government intends to expand its export incentive program and switch to a different system of import restraints. Athens will rely on quantitative controls on non-oil items and heavy taxes on petroleum products. Tourism will remain depressed by high air fares, Greek-Turkish tension, and the continued anti-American atmosphere. Earnings from shipping services will rise little, at best.

In 1975, the current account deficit again will approximate $1.2 billion, forcing continued heavy borrowing abroad. Prospective lenders include Paris, the EC, and several OPEC countries. Athens will try to protect foreign reserves, which now hover about the $900 million mark. (Confidential)

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US - CHINA TRADE OUTLOOK: EXPORTS DOWN, IMPORTS UP

The nearly $700 million surplus enjoyed by the United States in its trade with China in 1974 will be cut sharply in 1975. US exports to the PRC – featured in the past two years by grains, cotton, and aircraft – could fall to one-third last year's level, while US imports – predominantly consumer goods – will continue to rise.

US-China Trade[1]

Million US $

	1972	1973	1974
US exports	63	690	807
Agricultural products	61	578	656
Of which:			
Wheat	35	278	234
Corn	24	132	96
Soybeans		43	126
Cotton		101	186
Vegetable oils	2	19	8
Machinery and equipment	2	69	107
Of which:			
Aircraft, including engines, parts, and accessories		63	76
Steel scrap		24	12
Other		19	32
US imports	32	64	115
Food, beverages, and tobacco	4	[illegible]	16
Bristles and other crude animal materials	8	8	10
Textile fibers	4	6	5
Nonferrous metals	2	3	11
Chemicals (including fireworks)	2	8	18
Cotton fabrics	2	7	26
Antiques and works of art	3	6	8
Other	7	14	21

1. Source: US Department of Commerce data.

US Exports

Agricultural products — in particular soybeans and cotton — accounted for most of the jump in US exports to $807 million in 1974. China's current low interest in US agricultural products stems from an adequate domestic crop, a determination to ease a tight foreign exchange situation, and dissatisfaction with the quality of US wheat, corn, and soybeans. Peking has already canceled contracts for more than half of the 1.0 million tons of US wheat scheduled for 1975 delivery and is negotiating cancellation of the remainder. Long-term arrangements with Canada, Australia, and Argentina will keep the United States a residual supplier. The Chinese have complained of the high moisture content of US corn and the presence of poisonous datura seeds in soybeans, which probably rules out sales of these products. As for cotton, outstanding contracts call for delivery in 1975 of 500,000 bales worth about $100 million. Chinese interest in US cotton has diminished, however, which may portend revisions in the contracts.

In contrast to farm products, US industrial exports should continue to rise in 1975. Although new orders for US machinery totaled only $15 million in 1974, deliveries under 1973 contracts – notably equipment for the eight Kellogg ammonia plants – will peak in 1975. With export controls off, US sales of steel scrap could rebound to the 1973 level or higher. Gains are likely for such US manufactured goods as paper, aluminum, fertilizer, and other chemicals.

US Imports

The steady rise in US imports of Chinese goods is likely to continue – from $115 million in 1974 to $125-150 million in 1975. Chinese interest in the US market is growing at a moderate pace. Dramatic changes in products or marketing arrangements are not to be expected this year. (Confidential No Foreign Dissem)

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Note

South Africa: Gold Meets Higher Import Bills

High gold prices – attributable in part to worldwide inflation and expectations of US private purchases – enabled South Africa to meet its skyrocketing foreign exchange needs in 1974 with a reduced volume of gold production and sales.

	Tons		
	Production	Sales	Billion US $
1973	852	819	2.5
1974	758	778	3.9

Increased earnings in 1974 were essential to financing a 60% rise in imports, to $8 billion. Oil imports quadrupled to more than $1 billion, and non-oil imports – notably transportation, mining, and communications equipment – jumped because of higher prices and the physical requirements of a vigorous domestic economy. Gold will again finance about $4 billion in imports in 1975. A slowdown in South African demand for foreign machinery will be roughly offset by diminished markets for mineral exports and reduced supplies of agricultural exports. (Unclassified)

Publications of Interest*

The Soviet Fishing Industry: Prospects and Problems
ER RP 75-6, February 1975, -- ref

The Soviet Union operates the world's largest and most modern fishing and fishing-support fleets. Many of the ambitious goals under the 1971-75 plan will not be met because of lower than expected ship acquisitions, insufficient on-shore distribution and processing systems, expanded long-distance fishing operations, and increased conservation measures. In the future, the likely imposition of a 200-mile limit will force Soviet operations into less productive seas.

The Economic Situation in South Vietnam, January 1975
ER IR 75-4, February 1975, Confidential No Foreign Dissem

This monthly publication provides a yearend wrapup of the South Vietnamese economy in 1974, a description of market and credit developments in January, and a summary of the new 1975 budget.

* Copies of these publications may be ordered by calling [redacted] Code 143, Extension 7?74 25X1A

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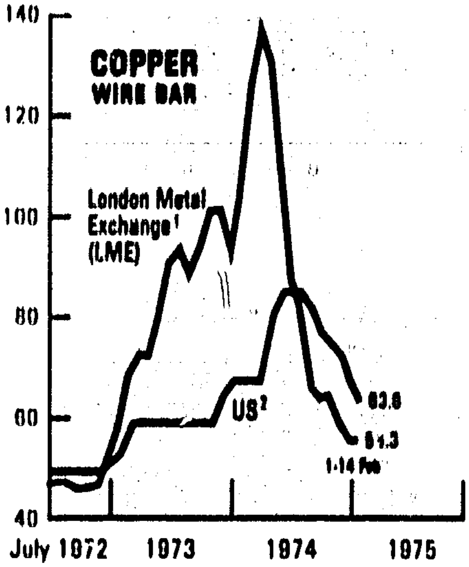
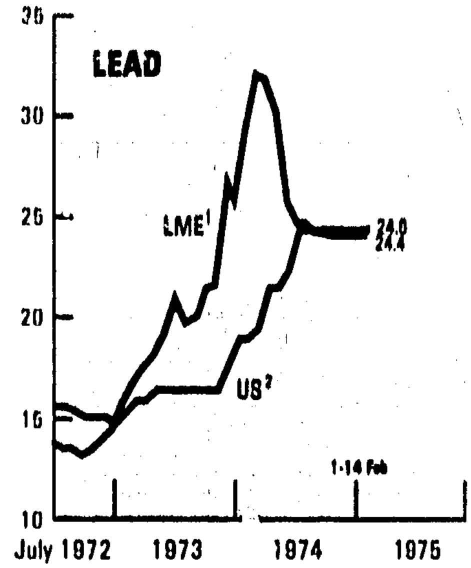
METAL PRICES Monthly Average Cash Price



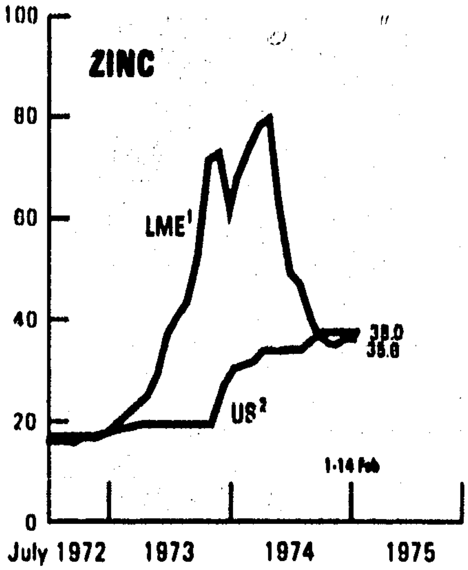
¢ Per Pound

	LME	US
14 Feb	57.3	63.6
7 Feb	54.4	63.6
Jan 75	56.1	67.9
Feb 74	103.6	68.0



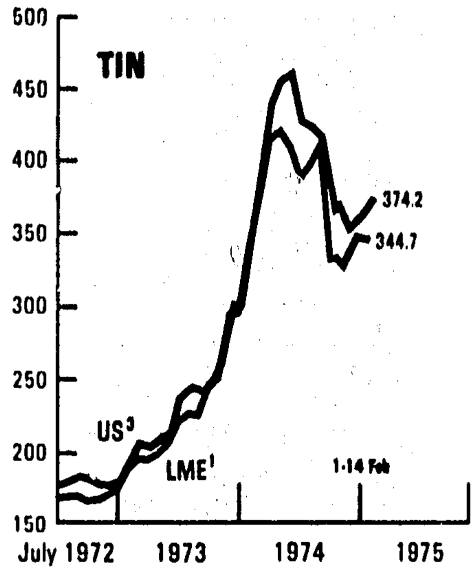
¢ Per Pound

	LME	US
14 Feb	24.5	24.5
7 Feb	24.3	24.5
Jan 75	24.3	24.5
Feb 74	29.4	19.0



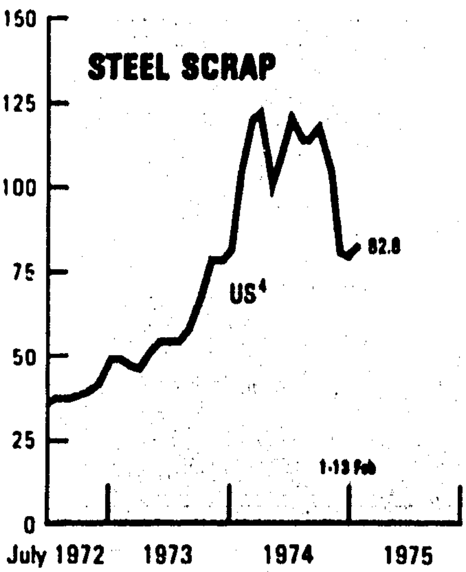
¢ Per Pound

	LME	US
14 Feb	35.8	38.0
7 Feb	34.9	38.0
Jan 75	36.2	38.0
Feb 74	68.6	31.9



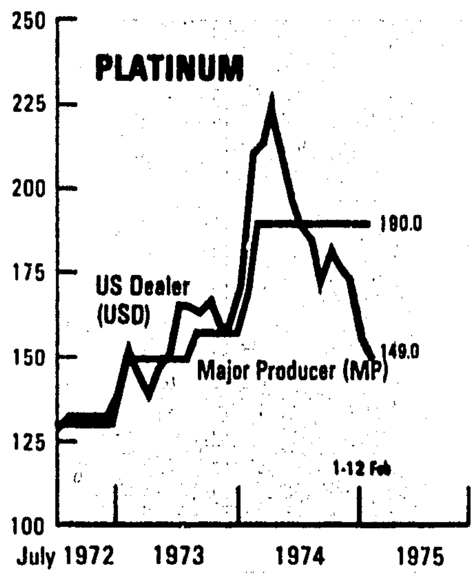
¢ Per Pound

	LME	US
14 Feb	344.6	373.6
7 Feb	344.9	374.5
Jan 75	348.0	363.5
Feb 74	341.2	351.5



$ Per Long Ton

	US
13 Feb	82.83
7 Feb	82.83
Jan 75	79.50
Feb 74	104.30



$ Per Troy Ounce

	MP	USD
12 Feb	190.0	149.0
7 Feb	190.0	149.0
Jan 75	190.0	155.3
Feb 74	170.0	211.6

[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.
[2] Producers' price, covers most primary metals sold in the United States.
[3] Quoted on New York market. [4] Composite price for Chicago, Philadelphia, and Pittsburgh.

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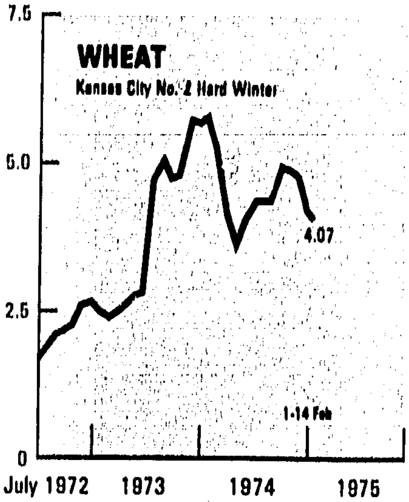
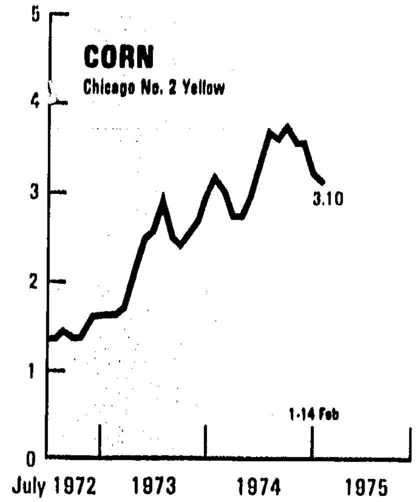
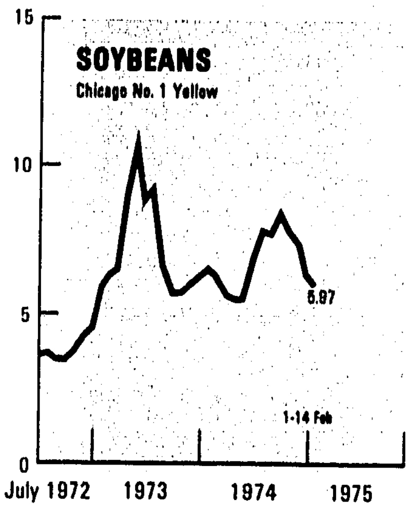
AGRICULTURAL PRICES Monthly Average Cash Price



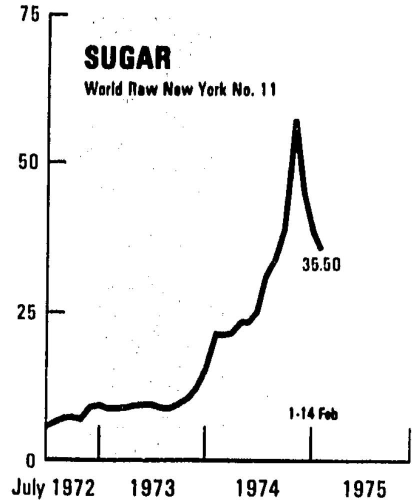
14 Feb	4.14
7 Feb	4.08
Jan 75	4.19
Feb 74	5.78



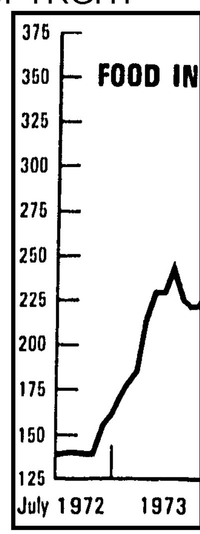
14 Feb	3.12
7 Feb	3.12
Jan 75	3.20
Feb 74	3.13

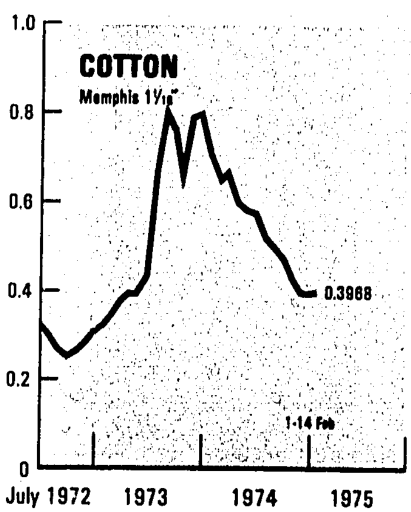


14 Feb	5.93
7 Feb	6.13
Jan 75	6.34
Feb 74	6.39

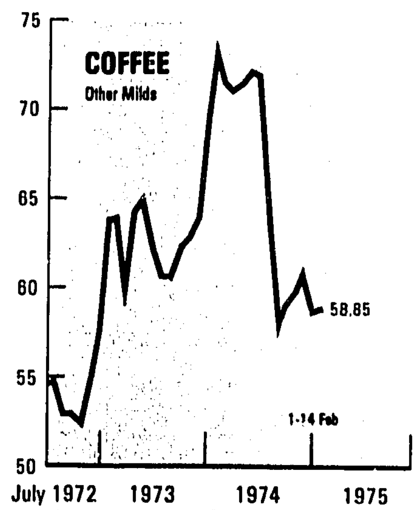


14 Feb	36.25
7 Feb	35.75
Jan 75	38.34
Feb 74	21.30





14 Feb	0.3945
7 Feb	0.3935
Jan 75	0.3904
Feb 74	0.7010



14 Feb	59.25
7 Feb	58.75
Jan 75	61.08
Feb 74	73.50

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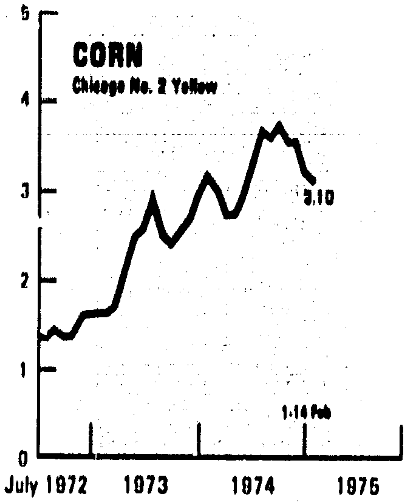
...hly Average Cash Price

$ Per Bushel

14 Feb	4.14
7 Feb	4.00
Jan 75	4.19
Feb 74	5.78

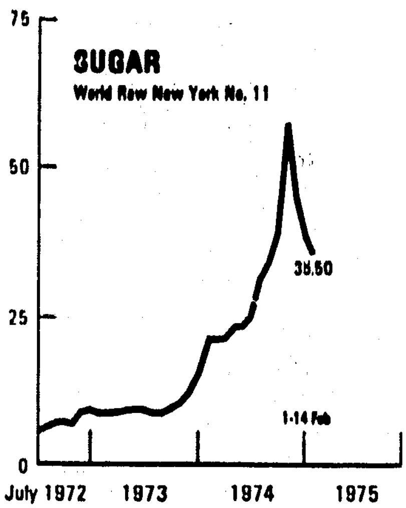


$ Per Bushel

14 Feb	3.12
7 Feb	3.12
Jan 75	3.20
Feb 74	3.13

$ Per Bushel

14 Feb	5.93
7 Feb	6.13
Jan 75	6.34
Feb 74	6.38

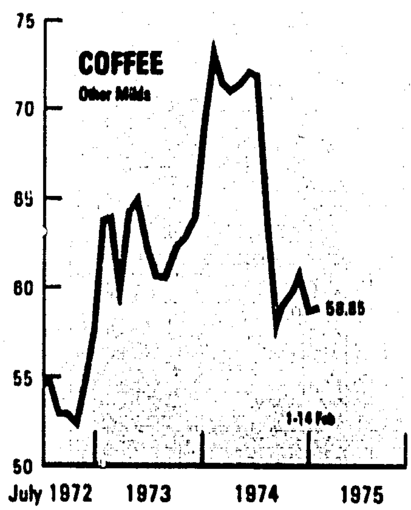


¢ Per Pound

14 Feb	36.25
7 Feb	35.75
Jan 75	[illegible]
Feb 74	21.30

$ Per Pound

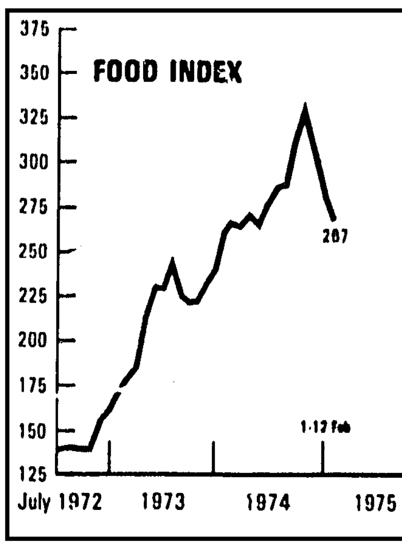
14 Feb	0.2945
7 Feb	0.3036
Jan 75	0.3004
Feb 74	0.7016



¢ Per Pound

14 Feb	59.25
7 Feb	58.75
Jan 75	61.06
Feb 74	73.50

CPYRGHT



CPYRGHT

1970 = 100

This is a compiled index by the Economist for 15 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.